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RR RUEHCN RUEHGH RUEHVC  
DE RUEHBJ #7557/01 3540702  
ZNR UUUUU ZZH  
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FM AMEMBASSY BEIJING  
TO RUEHC/SECSTATE WASHDC 4119  
INFO RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDO/USDOC WASHDC  
RUEAUSA/DEPT OF HHS WASHINGTON DC  
RUEHRC/DEPT OF AGRICULTURE WASHDC  
RHEHNSC/NSC WASHDC  
RUEAEPA/HQ EPA WASHDC  
RUEHOO/CHINA POSTS COLLECTIVE

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E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EAGR](#) [TBIO](#) [BEXP](#) [HHS](#) [CH](#)

SUBJECT: SED SESSION II: INTEGRITY OF TRADE, DECEMBER 12, 2007

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Summary

1. (SBU) Summary: During a December 12 working lunch, the United States and China stressed that product quality and the safety of food and drugs pose a complicated new challenge in a global economy. Both sides said trading partners should increase dialogue and cooperation and called for science-based regulations and responses to these issues. Warning that "finger-pointing" is counterproductive, Chinese officials claimed that quality and safety issues only affect a small percentage of Chinese exports. Health and Human Services (HHS) Secretary Michael Leavitt said product quality and food/drug safety were global problems and that USG and American public interest in this issue was not exclusive to China. Both sides welcomed new agreements in the area of food and product safety. Treasury Secretary Henry Paulson said the cooperative way the two governments have dealt with these issues within the Strategic Economic Dialogue should serve as a model for dealing with other bilateral issues. On transparency, SCLAO Vice Chairman Zhang Qiong said both sides had agreed to respect and build upon their international obligations on transparency and noted the importance of public participation in the drafting of regulations. End Summary.

Food and Product Safety: a Global Challenge

2. (SBU) During a December 12 working lunch, Vice Premier Wu Yi said the issues of product quality and the safety of food and drugs pose a new challenge that requires joint efforts by all trading partners. She welcomed the December 11 signing of two agreements for bilateral cooperation: one between Health and Human Services (HHS) and AQSIQ on food and feed and another between HHS and SFDA on drugs and medical devices. HHS Secretary Michael Leavitt said the two agreements were the beginning of a long process of working together, and that the United States and China had an opportunity to show leadership in creating new tools and mechanisms needed to ensure the quality of products traded in a global marketplace.

3. (SBU) Leavitt described five important lessons he learned during the negotiations of the two binding Memoranda of Agreement and in leading President Bush's interagency working group on import safety:

1) The issue of quality and safety of imports reflects the

maturation of the global marketplace and will require new tools developed by governments and the private sector.

2) There are multiple perspectives on the issue within and between governments, requiring better communication and cooperation within and between governments.

3) Certifiable international standards are necessary to provide interoperability between different systems in different trading economies, in order to achieve our common goals.

4) Transparency is essential for promoting greater trust which leads to smoother and faster trade transactions and success in a global market.

5) Product quality and safety is not a short-term issue. It will require continued cooperation and course corrections over a long period of time.

China's Ministry of Health (MOH)

14. (SBU) Newly-appointed Minister of Health Chen Zhu said the inclusion of food safety on the SED agenda showed the vision of both governments in addressing an issue that affects every household in the world, since potential threats know no national boundaries. Chen said MOH plays an important role in ensuring the safety of food in China through licensing of the catering and restaurant industry. MOH is also working on a standardized system of nutritional labeling for food products. Minister Chen said that MOH is combining law enforcement with efforts to educate the public. In the past three months, he said, MOH and local authorities have inspected 3.7 million businesses and found 99.5% were operating in compliance with their licenses.

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15. (SBU) Minister Chen described the creation of the Chinese government's Leading Group on Food Safety, chaired by Wu Yi, as a milestone. He said the Chinese government's approach follows a risk-based process grounded on sound science. He noted that the food risk evaluation process in China has actually helped goods from the United States enter the Chinese market, citing a case in which Chinese scientists disproved allegations that whiskey from the United States contained dangerous substances.

MOH Seeks Bilateral Cooperation

16. (SBU) Minister Chen said bilateral cooperation should take into account differences between Chinese and American food production practices. He claimed Chinese agricultural producers engaged in "natural" farming, and were not familiar with using chemicals and pesticides, in contrast to the industrial agricultural system of the United States. He also raised the issue of diet, citing the example of high levels of the antibiotic ractopamine in pork imported from the United States. This posed a threat in China, he said, because unlike Americans, Chinese eat pork livers where residue of the drug accumulates. The Minister called for science-based bilateral dialogue, as opposed to media-driven discussion, and assured the American side that China enforces its rules equally regardless of whether foodstuffs are domestically produced or imported.

17. (SBU) Chen said MOH needs scientific cooperation from the USG on evaluating food for contamination and disease, and on models for monitoring food safety. He also urged better cooperation between the two governments on publicizing information on food safety. He welcomed the two Agreements between HHS and counterpart agencies, and also noted that MOH had renewed an agreement with HHS on HIV/AIDS prevention, care, treatment and research. Finally, Chen reported that he had discussed with Secretary Leavitt the inclusion of traditional Chinese medicine (TCM) in the agenda for future SED meetings. Secretary Leavitt said he had agreed to seriously consider the idea, which Vice-Premier Wu Yi welcomed. (Note: HHS has approached MOH to propose that, rather than placing TCM directly inside the SED, the two sides should make TCM part of a US-China

Health and Medical Symposium, or the United States-China Health Care Forum, either of which could take place contiguously to SED IV. End note.)

SFDA: Translating Words into Action

18. (SBU) Picking up on the theme of drug safety and product quality as global challenges, State Food and Drug Administration (SFDA) Commissioner Shao Mingli said no country can rely only on its own system to guarantee the quality and safety of imports. He noted that SFDA has cooperated with the U.S. Food and Drug Administration (FDA) for many years and welcomed the December 11 agreement on drugs and medical devices. Shao said SFDA was interested in increasing cooperation because China and the United States have common interests, despite having different social systems. Shao said SFDA is interested in more bilateral exchanges to share information on adverse drug reactions and adverse incidents with medical devices, in regular exchanges of personnel, and in joint investigations of cases of counterfeit drugs and medical devices.

Secretary Gutierrez: Innovation Conference

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19. (SBU) Commerce Secretary Gutierrez reported the results of the December 10 Innovation Conference which attracted over 100 leaders from business, government and academia. Gutierrez said innovation was best fostered where there is rule of law, transparency, market-based policies and merit-based competition. He said he was very pleased by the commitment from Vice Minister Li of the Ministry of Science and Technology (MOST) to cooperate with the United States under the principles of equality, achievement sharing, and respect for international practices, and that the United States Department of Commerce looks forward to further cooperation with MOST.

AQSIQ

10. (SBU) AQSIQ Minister Li Changjiang noted that AQSIQ cooperates with counterpart agencies in the United States, including the Environmental Protection Agency (EPA), and that a pending AQSIQ-EPA agreement on regulating trade in waste materials will be the newest

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achievement of strengthened bilateral cooperation. Only with cooperative mechanisms in place, he said, can the United States and China guarantee the safety and quality of imports and exports.

11. (SBU) Li said the quality of Chinese exports to the United States and Japan is "ninety-nine percent" satisfactory, but that media coverage in the United States focuses only in the non-satisfactory "one percent." However, he said the "one percent" is important--only by addressing these problem goods can the United States and China achieve their common goal. The Minister stressed that all exporting countries, including the United States and Japan, have a problem "one percent." "We have a long way to go," he said, "to achieve zero risk." Minister Li said AQSIQ was interested in learning from HSS and FDA's vast experience, and looked forward to further cooperation to build mutual trust.

MOFCOM

12. (SBU) Vice Premier Wu Yi introduced Vice Minister of Commerce Chen Deming, whom she said the State Council Standing Committee would name Minister on December 20. Chen Deming described MOFCOM's role in ensuring product quality and food safety, particularly a pilot program for information-sharing between relevant Chinese government ministries now being implemented in Shenzhen Municipality, which MOFCOM will extend nationally. Chen said the program targets export producers, and seeks to control export market access through compulsory certification and inspections. Information shared between quality inspectors, tax collectors and other agencies enables MOFCOM to track the compliance of companies

with product quality and safety regulations, and to hold them accountable. He noted that 444 companies have been penalized in Shenzhen under the program so far, and two companies have had their licenses revoked in connection with tainted pet food cases. Chen said MOFCOM is setting standards based on international norms, and is conducting training programs on product safety and international standards. Chen Deming said that "finger pointing" was not helpful, and that the key to ensuring safe exports lies in effective cooperation.

Paulson: Model for Bilateral Engagement

¶13. (SBU) Treasury Secretary Paulson closed the discussion by noting that no one had envisioned discussing these issues when the SED was first established. He said the SED allows for bilateral engagement on this issue with a minimum of acrimony, and said this is the way the United States and China need to work together on other bilateral issues. (Note: At the closing press conference a day later, Secretary Paulson commented that the agreements reached on safety of

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food/feed and drugs/medical devices were proof of the value of the SED process. "Rather than engaging in finger-pointing," he said, "our two governments were quick to come together and work out a way forward," he said. End note.)

SCLAO: Regulatory Transparency

¶14. (SBU) Zhang Qiong, Vice Chairman of China's State Council Legislative Affairs Office (SCLAO), commended recent efforts at strengthening bilateral cooperation on regulatory transparency. He reported that the United States and China had reached agreement on four points related to transparency:

1) It is important and valuable for governments to solicit public opinion on draft rules and regulations, which Zhang said is consistent with President Hu Jintao's call for legislators to seek the views of the general public in carrying out their legislative work.

2) Both sides agreed to establish a mechanism to discuss administrative rule-making and administrative licensing. (Note: Zhang raised the transparency of the U.S. visa process as an illustrative example. End note.)

3) Both sides would respect and build upon their international commitments on transparency.

4) The two sides will continue discussing means to foster the participation of stakeholders in the drafting of laws and regulations.

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¶15. (SBU) Vice Premier Wu described the discussion of transparency as highly productive, and said she agreed with Secretary Leavitt's view that transparency can foster trust, make the process of regulation an inspection smoother, and increase competitiveness for those companies that have good records of compliance with regulations.

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